



Catalyst Portfolio Update and Market Outlook



As of February 28, 2026

*Mister blue sky please tell us why
You had to hide away for so long?
– Electric Light Orchestra*

The Losing Streak Appears to Be Over

According to Jefferies' Steve DeSanctis (SMID-Cap Strategy, February 24, 2026), small caps have just ended their longest losing streak versus large caps in recorded history. Small caps had trailed large caps since the end of 2016. This 8+ year stretch is the longest on record (data back to 1926). Over that period, small caps lagged large caps by a cumulative 44%, or roughly 7% per year.

Since April 8, 2025, the Russell 2000 has risen more than 50% versus 38% for the Russell 1000 — an outperformance of over 1,000 basis points.

Fundamental Green Shoots Are Appearing

Earnings growth, inexpensive relative valuations, and a pickup in M&A activity could make traditional small caps more attractive.

According to DeSanctis, small caps could deliver two consecutive quarters of double-digit earnings growth. Moreover, roughly 65% of Russell 2000 companies have beaten EPS estimates, and revisions are generally positive.

Meanwhile, M&A activity has accelerated. Supportive capital markets and reasonable valuations have lifted deal activity to levels not seen since 1999–2000.



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Performance (%) as of February 28, 2026

Rep. Accounts	MTD				QTD				YTD			
	Gross	Net	BM	vs BM	Gross	Net	BM	vs BM	Gross	Net	BM	vs BM
Small Cap Value	3.87	3.78	1.93	+1.94	10.84	10.65	8.92	+1.92	10.84	10.65	8.92	+1.92
Small/Mid Cap Value	3.32	3.23	3.87	-0.55	8.75	8.57	10.01	-1.25	8.75	8.57	10.01	-1.25
Mid Cap Value	4.35	4.28	4.72	-0.37	9.92	9.77	9.21	+0.71	9.92	9.77	9.21	+0.71
Micro Cap Value	3.51	3.42	2.70	+0.81	11.93	11.74	9.68	+2.25	11.93	11.74	9.68	+2.25

Source: SEI. **Past performance does not guarantee future results.** Representative accounts are those of the Integrity Small Cap Value Equity Strategy (Benchmark (BM): Russell 2000® Value Index), Integrity Small/Mid Cap Value Equity Strategy (BM: Russell 2500™ Value Index), Integrity Mid Cap Value Equity Strategy (BM: Russell Midcap® Value Index), Integrity Micro Cap Value Equity Strategy (BM: Russell Microcap® Value Index). **Benchmark comparison is versus gross performance.**

Market Returns (%) as of February 28, 2026

	MTD	QTD	YTD
S&P 500® Index	-0.76	0.68	0.68
Nasdaq 100® Index	-2.26	-1.06	-1.06
Russell 2000® Growth Index	-0.24	3.72	3.72
Russell 2000® Value Index	1.93	8.92	8.92



Past performance does not guarantee future results. Indices are shown to represent different market segments. Except for the Russell 2000® Value Index, the benchmark for Integrity Small Cap Value Equity, they are not the strategies' benchmarks.*

Composite Performance (%) as of December 31, 2025

	1 Year		5 Year		10 Year	
	Gross	Net	Gross	Net	Gross	Net
Small Cap Value	6.22	5.16	10.98	9.87	9.71	8.62
Small/Mid Cap Value	10.50	9.40	12.00	10.88	11.24	10.13
Mid Cap Value	11.27	10.33	11.67	10.72	11.24	10.32
Micro Cap Value	15.72	14.57	13.45	12.32	11.19	10.08

Past performance does not guarantee future results. Returns for periods greater than one year are annualized. Returns reflect the reinvestment of dividends and other earnings and are expressed in U.S. dollars. Gross-of-fees returns are presented before management and custodial fees but after any transaction costs. Net-of-fees returns reflect net-of-model fees and are calculated in the same manner as gross-of-fee returns using the Time Weighted Rate of Return method. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found on Part 2A of its Form ADV.

Still Challenging for Active Management

Empirical Research Partners (Tyler Albrecht and Rochester Cahan, “*Anomaly Watch — Small Cap Edition*,” February 4, 2026) found that roughly 75% of small-cap returns over the past year came from just three themes:

1. **AI infrastructure beneficiaries** — capital equipment makers, metals producers, and utilities powering data centers — which alone contributed more than 40% of the small-cap market’s return
2. **A historic rally in precious and industrial metals**, amplified by 50% tariffs on steel and aluminum imports and concerns about dollar debasement
3. **Rate-sensitive biotechs and banks** benefiting from expectations of Fed easing

Metals stocks alone accounted for one-fifth of the market’s return in 2025, with gold stocks contributing 12 percentage points of that total.

Momentum leadership in small caps is increasingly concentrated in unprofitable companies. A record share of the top quintile of momentum stocks now consists of money-losing firms. Moreover, valuations appear stretched: free cash flow yields for this group are at their lowest levels in sixty years. This retail-driven momentum resembles the meme-stock era of 2020.

The characteristics of these market leaders do not align with fundamental investing. Metrics typically viewed as favorable (low P/E, low price-to-cash-flow, high earnings quality) have recently underperformed, while their opposites have led. We believe this dynamic has made it difficult for active managers to outperform their Russell Value benchmarks.

February was a slightly better month for active managers, but year-to-date results remain challenging.

- **Small Value:** 60.5% of managers beat the Russell 2000 Value in February, but only 36% have outperformed year to date. Average alpha was +30 bps in February and -50 bps YTD.
- **SMID Value:** The average manager lagged by 70 bps in February and 160 bps YTD. Only 31% and 24% of managers beat the benchmark in February and YTD, respectively.
- **Mid-Cap Value:** Managers also struggled, with 28% outperforming in February and 36% YTD. Average alpha was -90 bps for both periods.

Our Take

We believe the conditions for a sustained, fundamentals-driven rotation into small- and mid-cap value are building.

Speculative froth concentrated in unprofitable momentum names — and the performance headwinds it has created — is setting the stage for fundamentally driven active managers. We are strong believers in mean reversion, and we are seeing early signs of it: earnings growth is beginning to broaden, balance sheet quality is improving, and cracks are appearing in retail-driven momentum leadership.

We believe we are well positioned for a return to value-driven, fundamentals-based investing.

Attribution

U.S. equity markets as measured by the S&P 500 (-0.8%) and the tech heavy Nasdaq (-2.3%) declined in February over AI and private credit concerns. Small caps continued to outperform their large cap peers as the Russell 2000 Value Index was up 1.9%. For the month, value outperformed growth across all four of our benchmarks. Small cap value and micro cap value outperformed their respective benchmarks, while small/mid cap value and mid cap value underperformed.

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An investment should be made with an understanding of the risks involved with owning a particular security or asset class. Interested parties are strongly encouraged to seek advice from qualified tax and financial experts regarding the best options for your circumstances.

Each representative account serves as the model against which all accounts in each respective strategy are managed. The representative accounts are actual portfolios and the information provided, including performance, will vary for other accounts. The representative accounts are being used solely as tools to help demonstrate how performance can be attributed to the investment policies applied in the management of each strategy.

*The Integrity Small-Cap Value Equity Strategy is benchmarked to the Russell 2000® Value Index. The Integrity Small/Mid-Cap Value Equity Strategy is benchmarked to the Russell 2500™ Value Index. The Integrity Mid-Cap Value Equity Strategy is benchmarked to the Russell Midcap® Value Index. The Integrity Micro-Cap Value Equity Strategy is benchmarked to the Russell Microcap® Value Index.

Index returns reflect the reinvestment of dividends and other income but do not reflect advisory fees or any other expenses. Indexes are unmanaged and one cannot invest directly in an index.

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